

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE THABO MOFUTSANYANA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages **xx to xx**, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, the statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 29 to the financial statements, the municipality is the defendant in a levy rate dispute. The municipality has appealed against the first ruling which was in favour of the levy payers. The final outcome of the matter cannot presently be determined and the receivables from non-exchange transactions amounting to R49 079 862, as disclosed in note 5 to the financial statements, have been impaired accordingly.

Restatement of corresponding figures

9. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the 2012-13 financial year in the financial statements of the Thabo Mofutsanyana District Municipality at, and for the year ended, 30 June 2012.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

11. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
12. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information*.
13. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
14. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

15. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters.

Achievement of planned targets

16. Of the total number of 170 targets planned for the year, 58 of targets were not achieved during the year under review. This represents 34% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Material adjustments to the annual performance report

17. Material misstatements in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

18. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
20. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

Conditional grants

21. The municipality did not submit quarterly performance reports to the transferring national officer, the provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
22. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Systems Improvement Grant and did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
23. The municipality did not submit, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

Budget

24. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
25. Monthly budget statements were not submitted within the required timeframes to the relevant provincial treasury, as required by section 71(1) of the MFMA.

Human resource management

26. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act, 2000 (Act no 32 of 2000) (MSA).

Audit committee

27. The audit committee did not advise the council on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
28. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
29. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

30. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal planning and performance management regulation 14(1)(a).
31. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
32. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
33. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Procurement and contract management

34. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Consequences management

36. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

37. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

38. Management did not adequately exercise oversight responsibility over compliance with laws and regulations as well as internal controls, due to a lack of skilled resources.
39. Management did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, due to the lack of consequence for non-compliance.

Financial and performance management

40. Management did not regularly review and monitor compliance with laws, regulations and internally designed policies and procedures, due to a monitoring process not being developed. As a result, significant non-compliance matters were noted that could have been prevented.
41. Effective financial and performance systems, processes and procedures and the management thereof have not been adequately monitored and implemented. This resulted in the financial statements being subject to material adjustments. Errors that were subsequently corrected were noted with regard to actual performance reported in the annual performance report due to lack of skilled staff.

Governance

42. Management did not implement appropriate risk management activities to ensure that regular risk assessments are conducted and that a risk strategy to address the risks is developed and monitored, as a risk management officer or committee was not in place.
43. There was not an adequately resourced internal audit unit that identifies internal control deficiencies and recommends corrective action effectively. This is due to the fact that vacancies in the internal audit unit were not filled during the year.

44. The performance audit committee or another committee functioning as the performance audit committee did not fulfil its function adequately in terms of reporting to council and reviewing the performance management system.

Auditor - General
Bloemfontein

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence